OPEN MEETING ITEM

ORIGINAL

ARIZONA CORPORATION COMMISSION

0000171838

DATE: JULY 25, 2016

DOCKET NO.: W-02304A-15-0263

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

COMMMUNITY WATER COMPANY OF GREEN VALLEY
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

AUGUST 3, 2016

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

AUGUST 9 AND 10, 2016

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

JODI A. JERICH
EXECUTIVE DIRECTOR

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE – Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

IN THE MATTER OF THE APPLICATION OF COMMUNITY WATER COMPANY OF GREEN VALLEY FOR DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE.	DOCKET NO. W-02304A-15-0263 DECISION NO. _____ **OPINION AND ORDER**
DATE OF HEARING:	May 12-13, 2016
PLACE OF HEARING:	Tucson, Arizona
ADMINISTRATIVE LAW JUDGE:	Jane L. Rodda
APPEARANCES:	Jason Gellman, Snell & Wilmer, LLP, on behalf of Community Water Company of Green Valley; and Matthew Laudone and Charles Hains, Staff Attorneys, Legal Division on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

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Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. Community Water Company of Green Valley ("Community Water" or "Cooperative") is a non-profit public service corporation providing water utility service to approximately 12,939 customers in an unincorporated area of Pima County and the Town of Sahuarita.[1]

2. On July 15, 2015, Community Water filed with the Commission an Application for a

[1] Ex A-7 Gabaldon Direct at 2; Ex S-3 Tsan Dir at 2. Cooperative Brief at 1. Ninety-six percent of the Company's customers are residential. The Cooperative's service area is almost built-out, with growth limited to less than 500 additional hook-ups.

Rate Increase, including the Direct Testimonies of Arturo Gabaldon, Ray Jones, and Thomas Bourassa and supporting Schedules. ("Application").

3. On August 14, 2015, the Commission's Utilities Division ("Staff") notified the Cooperative that its Application was sufficient pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103 and classified the Cooperative as a Class B Utility.

4. By Procedural Order dated August 24, 2015, the matter was set for hearing to commence on May 12, 2016, at the Commission's offices in Tucson, Arizona.

5. On October 20, 2015, the Cooperative filed an Affidavit of Publication and Mailing indicating that it had the public notice of the hearing published in the *Green Valley News and Sun* on September 16, 2015, and had the notice mailed as a bill insert to its customers in September and October 2015.

6. On February 2, 2016, Staff filed the Direct Testimony of Phan Tsan and Jian Liu, and on February 16, 2016, Staff filed the Direct Testimony of Ms. Tsan regarding Rate Design and Cost of Service.

7. On March 15, 2016, Community Water filed the Rebuttal Testimony of Mr. Gabaldon, Francisco Pina, Mr. Gary Woodard, Mr. Jones, and Mr. Bourassa.

8. On April 12, 2016, Staff filed the Surrebuttal Testimony of Ms. Tsan, Mr. Liu and Darron Carlson.

9. By Procedural Order dated April 26, 2016, the Pre-Hearing Conference set for May 3, 2016, was vacated at the agreement of the parties because of a scheduling conflict.[2]

10. On April 27, 2016, the Cooperative filed the Rejoinder Testimony of Mr. Gabaldon, Mr. Jones, Mr. Pina, and Mr. Bourassa.

11. The Hearing in this matter convened as scheduled on May 12, 2106, before an authorized Administrative Law Judge ("ALJ"), and concluded on May 13, 2016. Messers. Gabaldon, Pina, Woodward, Jones, and Bourassa appeared and testified for the Cooperative; Mr. Liu, Ms. Tsan and Mr. Carlson testified for Staff. Following the conclusion of the Hearing, the ALJ took the matter

[2] Subsequent to the Procedural Order that scheduled the Pre-hearing Conference, the Commission set its Open Meeting for the same date and time. Because there were no pre-haring issues or other need warranting such conference, the Pre-Hearing Conference was vacated.

under advisement pending the filing of Closing Briefs and the issuance of a Recommended Opinion and Order.

12. On June 17, 2016, the parties filed Closing Briefs.

13. The Commission received two written comments related to the requested rate increase; no members of the public appeared at the hearing to provide public comment in person. One comment opposed the increase because customers do not receive a Cost of Living Allowance increase this year, and the other believed that any increase should be recovered from the commodity charge in order to encourage conservation.

Background

14. Community Water received a Certificate of Convenience and Necessity in Decision No. 47912 (May 1, 1977) when it acquired assets from Arizona Water Company.

15. Community Water's current rates were approved in Decision No. 71478 (February 3, 2010), using a 2007 Test Year.

16. In this proceeding, the Cooperative used a Test Year ending December 31, 2014.

17. The Cooperative did not prepare a cost of capital analysis, because as a non-profit, the revenue requirement is being determined based on an operating margin approach.[3] The Cooperative requested a 16.5 percent operating margin which it believes will provide revenues to service long-term debt as well as provide sufficient funds for on-going expenses, expected capital requirements, and to partially fund cash reserves for major maintenance and plant replacements. Mr. Gabaldon testified that past infrastructure additions, such as meeting the Environmental Protection Agency's arsenic standard are contributing to the Company's higher operating and maintenance costs.[4]

18. Mr. Gabaldon testified that the Cooperative benefits from a fairly new system and significant growth through 2006, as well as an $11,845,200 contribution from Freeport McMoRan, Inc. ("Freeport") to mitigate water quality impacts. Thus, to-date, the Cooperative has experienced "moderate" capital expenses, with a significant portion of projects financed through funds received from members via developer contributions. The contribution from Freeport was used to replace two

[3] Ex A-10 Bourassa Dir at 2.
[4] Ex A-7 Gabaldon Dir at 9.

wells and supporting infrastructure. As a result, the Cooperative states that its rates do not include the costs of these facilities, and thus, are lower than they otherwise would be.[5] The Cooperative asserts that it needs to prepare for additional maintenance and replacement of its infrastructure, and as a non-profit corporation, with no shareholders, it must rely on either internally generated cash from rates or debt. The Cooperative asserts that it needs to build adequate cash reserves to meet expected and unplanned capital replacements in a financially-responsible manner to keep costs down for its customers.[6] Due to the uneven nature of major maintenance and capital expenditures, over the long-term, the Cooperative asserts that relying exclusively on new debt and operating cash flow could cause adverse impacts to the Company's financial condition and drive unplanned and unacceptable rate increases.[7] The Cooperative wants to maintain a debt to total capital ratio of between 20 to 35 percent in order to leave borrowing capacity to respond to unexpected events.[8]

19. Community Water's water system consists of a looped system with multiple pressure zones, four wells with a combined production capacity of 6,150 gallons per minute ("GPM"), four arsenic treatment facilities, five water storage tanks, and four booster stations.[9] Staff's analysis indicates that Community Water's system can support approximately 44,000 additional connections based on current production and storage capacities.[10]

20. Based on test year gallons pumped and sold, Community Water had a water loss of 5.36 percent, which is within Staff's maximum target of 10.0 percent.[11]

21. Community Water is located in the Tucson Active Management Area ("Tucson AMA") and is enrolled as a regulated tier 2 municipal provider in the Arizona Department of Water Resources' ("ADWR") Modified Non-Per Capita Conservation Program ("NPCCP"). ADWR has approved the following Best Management Practices ("BMPs") for Community Water: 1) Meter Repair and/or Replacement Program; (2) Customer High Water Use Inquiry Resolution; (3) Customer High Water Use Notification; (4) Residential Interior Retrofit Program; and (5) special events/programs and

[5] *Id.* at 14.
[6] *Id.*
[7] Ex A-4 Jones Dir at 11.
[8] Ex A-7 Gabaldon Dir at 15.
[9] Ex A-4 Jones Dir at 3; Ex S-1 Liu Dir JWL at 2.
[10] Ex S-1 Liu Dir JWL-1 at 6.
[11] *Id.* at 5.

community presentation. In addition, Community Water has implemented a Public Education Program as required by the NPCCP.[12]

22. ADWR reports that Community Water is in compliance with departmental requirements governing water providers and/or community water systems.[13]

23. The Arizona Department of Environmental Quality ("ADEQ") reports that Community Water's drinking water system is delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and A.A.C., Title 18.[14]

24. The Commission's Utilities Division Compliance Section shows no delinquent compliance items.[15]

The Rate Request

25. For the test year, Community Water reports adjusted Operating Revenues of $3,482,749, and Operating Income of $15,001, resulting in a rate of return of 0.19 percent on a proposed adjusted FVRB of $7,628,678, and which results in an Operating Margin of 0.43 percent.

26. The Cooperative requests a revenue increase of $682,357, or 19.59 percent, over the adjusted test year revenues, resulting in Operating Income of $687,242, which would yield a rate of return on the adjusted Fair Value Rate Base ("FVRB") of 9.01 percent, and an Operating Margin of 16.5 percent.[16]

27. In its Surrebuttal Testimony, Staff found adjusted test year revenues of $3,541,415, and adjusted test year Operating Income of $192,162, which resulted in a rate of return of 2.93 percent on Staff's adjusted FVRB of $6,563,586, and an Operating Margin of 5.4 percent.[17]

28. Staff recommends a revenue increase of $478,000, or 13.5 percent, over Staff's adjusted test year revenues, which produces a total revenue requirement of $4,019,415, and results in Operating Income of $663,076, a 10.1 percent rate of return on Staff's FVRB and an Operating Margin of 16.5 percent.[18]

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[12] Ex A-4 Jones Dir at 9.
[13] Ex S-1 Liu Dir JWL-1 at 5.
[14] *Id.* at 7.
[15] *Id.*
[16] Cooperative Brief at 3-4.
[17] Ex S-5 Tsan Surr at PNT-1.
[18] Staff Brief at 1-2.

29. The difference between the Cooperative's and Staff's positions is due to; (1) whether to include Reservoir No. 5 in rate base; (2) Depreciation Expense; (3) a Water Usage Normalization/Declining Use Adjustment; (4) Maintenance Reserve Expense; and (5) Legal Expenses.

Reservoir No. 5

30. The Cooperative requests that its Original Cost Rate Base ("OCRB") be used as its FVRB.[19]

31. The difference between the Cooperative's proposed FVRB and Staff's recommended FVRB is $1,115,000, which reflects Staff's removal of the cost of Reservoir No. 5.[20]

32. The Cooperative replaced its Reservoir No. 2, which was an aging rubber fabric design with a capacity of 1,000,000 gallons, with a new Reservoir No. 5, a steel tank with a 2,000,000 million gallon capacity. Reservoir No. 5 cost a total of approximately $1,115,000 and was put into service in September 2015.[21]

33. Staff does not dispute any of the operational problems associated with Reservoir No. 2 and does not object to the removal of Reservoir No. 2 from service. Staff believes, however, that Reservoir No. 5 is unnecessary to the delivery of adequate water service, and argues that Reservoir No. 5 provides the Cooperative with capacity that is so far beyond the minimum storage requirement of 3.04 million gallons established by A.A.C. R18-5-503.A and ADEQ Engineering Bulletin No. 10, that it should be considered to be excess capacity and not used and useful.[22] Staff asserts that the basis of the Cooperative's target to have 48 hours of storage capacity is not based on a regulatory requirement.[23] Staff claims that even with the decommissioning of Reservoir No. 2 and without Reservoir No. 5, and excluding the largest producing well, the Cooperative would have sufficient production to nearly meet its 48 hour target.[24]

34. Staff disagrees with Community Water's claims that Reservoir No. 5 provides greater benefits to the Cooperative in the event of wellsite flooding as well as during normal operating

[19] Ex A-10 Bourassa Dir at 6.
[20] Staff Brief at 2.
[21] Ex S-1 Liu Dir JWL at 10; Ex A-10 Bourassa Dir at Sch B-2 at 3.
[22] Staff claims that pursuant to these requirements, the Cooperative's minimum storage requirement is 3.04 million gallons.
[23] Staff Brief at 4.
[24] *Id.*; Tr. at 218. In addition, Staff notes that with declining usage, it is possible that the Cooperative could have 48 hours of storage without Reservoir No. 5. Staff Brief at 5.

conditions.[25] Staff argues that if flooding takes a well out for weeks, not just 48 hours, the addition of Reservoir No, 5 will not be sufficient to immunize the Cooperative from the loss of production. Furthermore, Staff notes that the longest any customer has been out of water service is approximately 12 hours. Staff believes that emergency diesel generators would have provided resiliency to the system at a lower cost than the addition of Reservoir No. 5.

35. Staff also disagrees that Reservoir No. 5 produces benefits outside of an emergency, as Staff believes that Reservoir No. 5 is operationally redundant to Reservoir No. 4, and only produces a benefit for 10 hours in the event of an emergency that deprives the Cooperative of well production on an extended basis.[26]

36. Staff argues that the cost of Reservoir No. 5 should be removed from rate base because it is inappropriate to overbuild plant and burden ratepayers with the cost of unnecessary investments.[27] Staff states that the decision to select Reservoir No. 5 may have been the choice of the Board of Directors and Cooperative management, but that it is not clear that the larger membership was presented any alternative as a means to improve overall system resiliency.[28]

37. The Cooperative asserts that the decision to replace Reservoir No. 2 with Reservoir No. 5 was made by the Board of Directors after the options were vetted by the Cooperative's finance committee and water system planning committee.[29] Community Water asserts that customers were notified of the deliberations at two annual meetings, by two letters, and by the notice provided of the Commission's deliberations in the financing docket.[30]

38. The Cooperative argues that Reservoir No. 5 increases the reliability of the Cooperative's delivery system in that it meets a target of a 48 hour water supply with no pumping required.[31] The Cooperative provided the testimony of Raul Francisco Pina, a Registered Professional Engineer, who testified that construction of Reservoir No. 5 was a better option than the alternatives

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[25] Staff Brief at 5-6.
[26] Staff Brief at 6; Tr. at 238-39.
[27] Staff Brief at 7.
[28] *Id.* at 8.
[29] Tr. at 124-25, 127, 152.
[30] Tr. at 130. See Docket No. W-02304A-14-0041.
[31] Ex A-8 Gabaldon Reb at 4.

which included rehabilitating Reservoir No. 2 or installing standby generators for emergency use.[32] Mr. Pina testified that Reservoir No. 5 is an essential part of the distribution system, is being used to provide water service, and provides numerous benefits to the Cooperative and its members. The benefits he identified include: (1) full compliance with the more conservative recommended storage capacity; (2) lower maintenance costs and less time of interrupted service for maintenance activities compared to other alternatives; (3) lower risk for contingencies and repairs than a generator, since reservoir storage is always at hand and not awaiting activation in case of an emergency; (4) the larger two million gallon steel tank matches the capacity of Reservoir No. 4 which allows for minimal adverse impacts during repairs or maintenance; (5) constructing a new reservoir that equalizes its operating level with that of Reservoir Nos. 3 and 4 simplifies the interconnectivity of the system and reduces pumping costs for routine filling; (6) having system storage capacity at recommended levels rather than minimum required levels addresses concerns about service to the vulnerable population in the Cooperative's service area; and (7) significantly lower vulnerability to vandalism compared to other alternatives.[33]

39. The Cooperative believes that Reservoir No. 5 offers benefits that emergency generators do not, including that generators do not provide the same operational benefits under normal conditions, and only provide benefits in emergencies; and the cost of providing standby generators would require long-term costs for maintenance and replacement, which exceed the replacement cost of Reservoir No. 2.[34] By installing a 2,000,000 gallon storage tank, the Cooperative increased the storage of Reservoir No. 2 by 1,000,000 gallons. Mr. Pina testified that the "extra" 1,000,000 gallons only added an additional $200,000 to the cost compared to a new 1,000,000 gallon tank.[35]

40. The Cooperative argued that its goal of having a 48 hour water supply, without relying on pumping, is reasonable for Community Water.[36] The Cooperative explains that Reservoir No. 5 was sized so that its emergency supply volumes, in combination with other storage facilities would exceed

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[32] Cooperative Brief at 7; Ex A-2 Pina Reb at RP-2.
[33] Ex A-2 Pina Reb at 8-9, Ex RP-2 (Engineer's Reservoir Selection Report) at 7, and Ex RP-3 (Completion Report for Water Reservoir #5) at 6-8.
[34] Ex A-2 Pina Reb at 7.
[35] *Id.* at 8.
[36] Cooperative Brief at 8-10.

the 2013 48-hour average demand of 4,453,037 gallons. The Cooperative states that with Reservoir No. 5, it has about 4,516,625 gallons in operating capacity. The Cooperative believes the 48 hour supply target is appropriate because of the high number of older customers in its service area, and because the Company's wells are located adjacent to the Santa Cruz River and vulnerable to flooding. The Cooperative also believes that its size argues for redundancy and resiliency because it cannot transfer water from a separate service area. The Cooperative also argues that Staff's use of a minimum standard to determine excess capacity is inappropriate and leaves the water system and the Cooperative inadequately protected from water service interruption.[37]

41. The Cooperative argues that Staff's opposition to Reservoir No. 5 is based on a simplistic view of Community Water's system and an unreasonable reliance on minimum standards.[38] The Cooperative argues that Staff ignores how the Company's analysis of Reservoir No. 5 involved many of the attributes of effectively managed utilities such as enhancing customer satisfaction, enhancing operations optimization, assuring financial viability, promoting infrastructure stability, improving operational resiliency, and involving stakeholders.[39]

42. The Cooperative further argues that using Staff's approach of determining excess capacity based on minimum standards is inappropriate as minimum requirements do not provide meaningful guidance concerning a system's storage, and if relied upon for a system with multiple pressure zones (such as the case for Community Water) without considering individual objectives of providing storage, can result in a system that is not consistent with good engineering practices as required by A.A.C. R18-5-502.[40]

43. The Cooperative also asserts that Staff did not make a meaningful analysis of the Company's 48-hour standard, and also did not account for the operational levels in the storage tanks to take into account "dead storage."[41] The Cooperative states that considering the operating levels and

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[37] Ex A-2 Pina Reb at 5 and 9-10. Tr. at 67-68, 71-72, 132-35.
[38] Cooperative Brief at 10-14.
[39] Ex A-5 Jones Reb at 4.
[40] *Id.* at 5-6.
[41] Cooperative Brief at 11-12. The operational level determines the actual available storage in each tank and is defined as storage between the low water level when the pumps turn on to fill the reservoir and the high water level when the pumps turn off. "Dead storage" is the amount of water not realistically available based on piping configurations or other factors. Ex A-2 Pina Reb at 5.

actual available storage versus dead storage, Staff's position that the Cooperative has storage capacity of 6.6 million gallons is not accurate, and that the available storage, with Reservoir No 5, is actually around 4.7 million gallons.[42] The Cooperative claims that it would not be in compliance with engineering guidelines if Reservoir No. 2 were not replaced, as its total available storage would be reduced to 2.6 million gallons at low level and 3.2 million gallons at operating level.

44. Further, Community Water argues that Staff's practice of factoring in production capacity to determine the appropriate level of storage is inappropriate and not in accordance with good engineering practice, as such an analysis could conclude that no storage capacity is needed, which would not be reasonable for a system the size of Community Water.[43]

45. Finally, the Cooperative notes that when the Commission approved the financing for the construction of Reservoir No. 5, the Commission found that the Cooperative had performed extensive research and demonstrated the benefits of the new storage tank.[44]

46. Although Reservoir No. 5 was placed into service post test year, there is no dispute that it is providing service to test year customers or that its cost is reasonable. We understand Staff's concerns that utilities should not invest in plant that is not needed to provide service as this could result in ratepayers paying more in rates for the increased operating costs, and for the return on the plant placed in rate base. In this case, the Cooperative engaged in a detailed and thorough investigation of the options for replacing Reservoir No. 2. The ADEQ regulations cited by Staff offer guidance on minimum system requirements for water system storage, but are not intended to determine if plant is excess capacity for rate-making purposes. The dispute between the Cooperative and Staff is over how best to design and manage the Community Water system. In the absence of a motive to increase rates to provide a return to shareholders; a reasonable reliance on the advice of professional engineers; a robust decision-making process that involved the Board of Directors and other committees comprised of Cooperative members in the selection of the Reservoir No. 5 option; and that the retired Reservoir No. 2 was included in rate base for many years, we find that Reservoir No. 5 should be included in rate base, and its associated Depreciation Expense included in operating expenses. Our decision is specific

[42] Cooperative Brief at 12; Ex A-2 Pina Reb at 6.
[43] Tr. at 92, 111.
[44] Decision No. 74809 (November 13, 2014.)

to Community Water and the specific facts of this case, and should not be relied upon by other utilities making decisions to invest in plant.

Depreciation Expense

47. The Cooperative proposed a total Depreciation Expense of $1,021,412, while Staff recommends adjusting Depreciation Expense to $926,682. The difference involves the dispute over the depreciation associated with Reservoir No. 5, and the Cooperative's use of the Broad Group Method.

48. Staff claims that there has been an over-depreciation of plant in the Cooperative's implementation of the Broad Group methodology for determining Depreciation Expense.[45] Staff believes that the Cooperative has not been periodically reviewing its depreciation rates as required by the National Association of Regulatory Utility Commissioners ("NARUC") which has resulted in both excess and accelerated depreciation.[46]

49. Staff asserts that the standard depreciation rates recommended by Staff, are not specific to any one company and are statewide averages. Staff explains that it is not recommending that the Cooperative perform a depreciation study for its next rate case, but does believe that the Cooperative's failure to periodically review its depreciation rates has caused over-stated and accelerated depreciation in this case. Staff recommends that the Cooperative follow NARUC accounting guidelines for whichever method of depreciation it uses and to stop depreciating fully depreciated plant.[47]

50. The Cooperative argues that Staff's Surrebuttal position that recommended a Depreciation Expense of $926,682 (increased from $823,885 in Direct), is problematic because it requires the Cooperative to change depreciation methods.[48] Furthermore, the Cooperative asserts that Staff did not adjust the Accumulated Depreciation reserve balance.[49] The Cooperative asserts that of the $94,730 difference in the accumulated depreciation account between Community Water and Staff, $44,000 relates to Reservoir No. 5, and approximately $51,000 is attributed to differing methods of depreciation.

51. Community Water argues that it properly implemented the Broad Group method to

[45] Staff Brief at 9.
[46] Tr. at 284-85; Staff Brief at 9.
[47] Staff Brief at 9.
[48] Cooperative Brief at 19.
[49] Ex S-7 Tsan Surr at 7.

determine an appropriate and reasonable level of Depreciation Expense as the Commission accepted this methodology in the Cooperative's previous two rate cases, as well as for other public service corporations; the method is accepted by NARUC and is widely used and produces reasonably stable depreciation rates from year to year because of its averaging effects; and it requires the least accounting records of annual additions and balances.[50]

52. The Cooperative argues that to make a major change in its depreciation methodology going forward as suggested by Staff, could have serious consequences for the Cooperative if its auditors find the change to be material, and will raise concerns about the reliability of the Company's financial reports.[51]

53. The Cooperative argues that Staff's criticisms of the Company's method are flawed because they are based on inappropriately applying one method to another.[52] Community Water asserts that ratepayers are not harmed under the Broad Group method because the Cooperative does not over recover its plant investment because depreciation stops when the plant account is fully depreciated. The Cooperative argues that Staff cannot look at a single year of the Company's depreciation calculation, but must look at all the years in the analyses to determine if the method is applied correctly.

54. The Commission approved Staff's typical and customer depreciation rates in the Cooperative's previous two rate cases.[53] The Cooperative argues that because it utilized Staff's typical and customary depreciation rates, it should not have to submit a depreciation study when it does not dispute those rates. The Cooperative asserts that most Arizona utilities do not conduct depreciation studies because of the cost, the inevitable disputes over the study, and because Staff's Engineering Section typically recommends depreciation rates by plant account based on Staff's expertise.[54] The Cooperative notes that even in this case, Staff's engineer recommends that the Cooperative continue to use the same typical and customary depreciation rates that the Commission had previously approved.

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[50] Cooperative Brief at 17-21. Community Water explained that under the Broad Group method, all units of plant within a particular depreciation category are considered to be one depreciable property group, regardless of when the asset is added to the group. The annual depreciation is computed at the group level based upon the average life of the group. The Cooperative states that it has used the Broad Group method for several decades without complaint. Cooperative Brief at 14-15.

[51] Cooperative Brief at 15.

[52] Cooperative Brief at 16.

[53] Decision No. 69205 (December 21, 2006) and Decision No. 71748 (February 3, 2010).

[54] Ex A-11 Bourassa Reb at 12.

The Cooperative argues that the Commission's regulations only require a depreciation study if the Cooperative seeks to change the rates.[55]

55. The Cooperative states that it would be willing to perform a depreciation study in the next rate case as long as the costs of such study are recoverable in rates as rate case expense.

56. The benefit of Depreciation Expense for a ratepayer is that it increases the Accumulated Depreciation Balance which is a reduction to rate base. If between rate cases, the utility stops depreciating plant that is fully depreciated, but remains in service, the utility also stops adding to Accumulated Depreciation. Ratepayers, however, continue to pay rates that include the test year level of Depreciation Expense, but would not receive the benefits of increased Accumulated Depreciation at the next rate case. We have addressed this issue before. In a recent EPCOR rate case we found that continuing to record depreciation expense on all depreciable plant as long as it remains in service is essential to the fairness of the group depreciation method.[56] We believe this continues to be true, and applies to the current situation. Thus, we direct Community Water to continue to record depreciation expense on all depreciable plant that is in service.

57. We agree with Staff that the Cooperative has the responsibility under any NARUC-approved method of determining depreciation to ensure that deprecation rates are appropriate. It has this obligation under any method of calculating depreciation. Between now and the next rate case, Community Water should periodically review its plant accounts and evaluate whether the current depreciation rates are reasonable. Such evaluation does not require an expensive depreciation study but can focus on those accounts where plant routinely out-lives its estimated useful life, and can be informed by using common sense. However, until and unless the Commission determines in the next rate case that depreciation rates should be revised, Community Water is authorized to utilize the standard depreciation rates as recommended by Staff in this case.

58. Based on the foregoing, we adopt a Depreciation Expense of $1,021,412, which is based on Staff's recommended depreciation rates and includes the depreciation associated with Reservoir No. 5.

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[55] A.A.C. R14-2-102(C); Cooperative Brief at 18.
[56] Decision No. 75268 at 22.

Usage Normalization Adjustment

59. Community Water originally proposed a usage normalization adjustment of $94,433 to address declining use by residential customers. The Cooperative also factored in reductions to Purchased Power Expense and Chemicals Expense. Although initially disputing the residential adjustment, Staff adopted a residential usage adjustment in its Surrebuttal case.[57]

60. In Rebuttal, the Cooperative included an additional adjustment for usage normalization related to commercial customers – reducing metered revenues by $64,296 over the usage normalization in the Cooperative's Direct filing.[58] The Cooperative also adjusted Purchased Power Expense and Chemical Expense (a total reduction of $14,481), related to the commercial adjustment, resulting in a net adjustment of $53,815.

61. Staff opposes the additional usage normalization adjustment for commercial revenues because the reduction is not known and measurable.[59] Staff does not believe that the trend for commercial usage is predictable, as commercial sales have fluctuated from year to year and have been slowly increasing in recent years.[60]

62. The Cooperative argues that the usage normalization adjustment for commercial sales is based on the actual experience in 2015, and takes into account the announced workforce and operations reduction at the Freeport – Sierrita mine ("Sierrita mine").[61] According to the Cooperative, the actual measurable water sales attributed to the Sierrita mine declined from $102,407 in 2014 to $68,545 in 2015.[62] The Cooperative states that it expects sales to the mine to decline further in 2016, but did not adjust the test year sales beyond the actual 2015 figure.[63] The Cooperative argued that there is no indication that the Sierrita mine will resume its prior level of operations, and thus, the water usage normalization adjustment should be adopted as a known and measurable change.

63. The Cooperative presented evidence that the decline in residential usage has been occurring over several years and is a phenomenon industry-wide as customers respond to extended

[57] Ex S-5 Tsan Surr at 3. Staff utilized a different method to reflect the reduction in metered revenues than the Cooperative.
[58] Ex A-13 RJ Schedules at Sch C-2 at 6; Tr. at 184-85.
[59] Staff Brief at 8.
[60] Ex S-5 Tsan Surr at 3.
[61] Ex A-8 Gabaldon Reb at 11.
[62] *Id.*
[63] Cooperative Brief at 24.

drought conditions, utilize water-saving appliances, and respond to inverted tiered rates.[64] The proposed declining usage adjustment on the commercial side appears mostly tied to lower sales to the Sierrita mine. Sales to the Sierrita mine declined in 2015, and at the hearing the Cooperative was under the impression that the Sierrita mine would make further cutbacks. The Sierrita mine remains open, however, and at least for now has put plans for additional layoffs on hold pending the global market for copper.[65] Given the uncertainty concerning the Sierrita mine operations, a declining usage adjustment for the commercial sales is speculative. Thus, we adopt revenue and expense adjustments for declining residential sales, but decline to accept the proposed commercial sales usage adjustment.

64. Consequently, we find Community Water's adjusted test year revenues to be $3,541,415.

Tank and Reservoir Maintenance Fund Expense

65. The Cooperative initially proposed recovery of $55,886 for annual accrual maintenance expense, but updated its request to $67,000 in its Rebuttal filing. Staff recommends a maintenance reserve expense of $44,129.

66. The Cooperative argues that its proposed level of annual maintenance accrual expense realistically reflects what is needed to maintain key storage facilities.[66] The Cooperative believes that its request for $67,000, which includes $15,000 for Reservoir No. 5, is conservative, and will ensure that current customers who receive water service from these facilities also contribute to their maintenance.

67. The Cooperative calculated the Company's level of maintenance expense based on the remaining time left in the maintenance cycle, and asserts that its approach is more realistic because the storage facilities have been in use for some time, and are within the current maintenance cycle. The Cooperative argues that Staff's recommendation underestimates the amount needed to maintain the facilities because Staff divided the total maintenance fund needed by the total years in the maintenance cycle rather than the number of remaining years.

68. Staff states that it established its recommended repair and maintenance reserve amount

[64] Ex A-1 Woodward Reb at 3-10.
[65] See "Freeport to keep Sierrita running," *Arizona Daily Star*, June 25, 2016.
[66] Cooperative Brief at 25-26.

by excluding Reservoir No. 5 and incorporating the Cooperative's already accrued net reserve of $152,451.[67]

69. Staff agrees with Community Water that it is appropriate to create a reserve fund for the repair and maintenance of the Cooperative's reservoirs and tanks. The dispute is over how to calculate the annual contribution to the reserve (and whether Reservoir No 5 should be included). The parties agree that the existing reserve balance of $152,451 should be considered, and both agree that the total needed reserve fund (not including Reservoir No. 5) is $612,549.[68] Staff then divides the target reserve fund by the number of years in the maintenance cycle to arrive at an annual cost of $44,129; while the Cooperative divides the target reserve fund by the remaining years in the repair cycle to arrive at an annual cost of $101,274.[69] If the goal is to have the reserve fund fully funded by the time the various maintenance and repair costs are expected to be incurred, the Cooperative's methodology is appropriate. In this case, in the spirit of compromise, Community Water is not requesting recovery of the full amount that would "fully fund" a reserve account. Community Water has healthy reserve balances. Its total projected capital as of December 31, 2015, was $13 million, which significantly exceeds its rate base of $7.6 million; its cash on hand was approximately $2.6 million.[70] The Cooperative has done a good job of managing funds and planning for the future, such that there is no urgency to make up for under-funding reserve accounts. Increasing the annual contributions for reserves increases rates for members. In this case, we find that an annual reserve fund contribution of $60,000 strikes a reasonable balance. Thus, we adopt a total Repairs and Maintenance Expense of $70,022, which includes an annual repair expense component of $10,022.

Legal Expense

70. The Cooperative requests a Legal Expense of $18,354, which is the test year level. Staff reduced the Legal Expense by $10,911, for a total recommended Legal Expense of $7,434.[71]

71. Staff states that its adjustment reflects the cost of a settlement agreement associated with

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[67] Ex S-5 Tsan Surr at Sch PNT-11; Staff Brief at 8.
[68] *Compare* Ex S-5 Tsan Surr at PNT-11 with Ex A-12 Bourassa RJ at 7.
[69] The Cooperative is only asking for $67,000 for the reserve fund. If the $15,000 annual accrual associated with Reservoir No. 5 were to be included, the Cooperative states the annual cost would be $116,274 ($101,274+$15,000). Ex A-12 Bourassa RJ at 7.
[70] Ex S-6 Carlson Surr at 5.
[71] Ex S-5 Tsan Surr at PNT-12. The Legal Expenses are part of Contractual Services Expense.

an employment issue. Staff removed the expense because it is non-recurring.[72]

72. The Cooperative states that since 2010, it has averaged $15,000 in legal expenses, and that while the specifics of the legal expense may change from year to year, the Cooperative has, and will continue to incur, legal expenses going forward. Community Water argues that Staff's recommended $7,500 for Legal Expenses is only about half of the normal and recurring amount.[73]

73. Legal expenses should reflect a normalized amount. Thus, based on the Cooperative's statements concerning the average expenses since 2010, we adopt a Legal Expense amount of $15,000, which is $3,354 less than the test year level being sought by the Cooperative.[74]

Revenue Requirement

74. Based on our inclusion of Reservoir No. 5, Community Water's FVRB is $7,628,678.

75. Our findings indicate that in the test year, Community Water had adjusted total revenues of $3,541,416; adjusted test year expenses totaling $3,456,500, resulting in adjusted test year Operating Income of $84,916, an Operating Margin of 2.4 percent, and a rate of return on its FVRB of 1.11 percent.[75]

76. The Cooperative asserts that its proposed Operating Margin of 16.5 percent is based on a comprehensive analysis of its needs going forward, including the need to fund the replacement of long-lived assets (including wells funded by Freeport); the need to build capital reserves to protect financial stability; the need for adequate cash reserves for various funds (reservoir and forebay maintenance, replacement of media at arsenic treatment plants, renewal of an Arizona State Land Department lease, and capital expenditures).[76] The Cooperative's capital reserve target for 2015 is $2.9 million, but increases to $3.8 million 2020. The Cooperative claims the 16.5 percent Operating Margin enables it to fund future capital expenditures through a combination of lower-cost debt together with funds from customers, and also avoids charging current customers for the costs of future infrastructure

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[72] Staff Brief at 9.
[73] Ex A-11 Bourassa Reb at 19.
[74] The Total Contractual Services (excluding testing) is therefore $274,003.
[75] We note that in the Cooperative's Rejoinder Schedules, it mislabeled "Employee Pensions and Benefits" as "Purchased Water" and also mislabeled the column "Test Year Book Results" which is actually "Test Year Adjusted Results." As a result of the Cooperative's presentation, there is no single schedule that shows all of the adjustments reconciling the actual test year books with the Cooperative's final position. The difficulty of analysis is further exacerbated by the mislabeling. We urge the Cooperative to review its schedules carefully in the future.
[76] Cooperative Brief at 27.

and future customers for the costs of current and past infrastructure.[77]

77. Staff agrees that a 16.5 percent Operating Margin is appropriate for the Cooperative in this rate case. Staff has some concerns about the Cooperative's expressed long-term plan of pushing for a higher Operating Margin in future rate cases. Staff believes that a higher Operating Margin could push the Cooperative to an unbalanced capital structure containing higher amounts of equity than desirable. Staff states that this could create a situation where current customers are paying for future customer needs.[78]

78. We agree that because Community Water is a non-profit cooperative, and not seeking a return on its investment in plant-in-service, that a cash flow analysis is more informative than return on rate base in the determination of just and reasonable rates. We are mindful, however, that a reasonable Operating Margin for one company, may not be reasonable for another that has substantially different operating costs or operational needs. The limitations of operating margin as a financial metric is demonstrated in this case, where both the Cooperative and Staff recommend using a 16.5 percent operating margin, but because they are based on different assumptions for operating revenues and expenses, the result is a $145,691 difference in the revenue requirement.[79] Although they speak in terms of operating margin, both parties focus on the cash flow the Cooperative requires for debt service, capital investment, reserves, and contingencies. In this case, we concur with the parties that an Operating Margin of 16.5 percent, which provides an annual cash flow after debt service of $1,433,459 is reasonable. We find that this level of cash flow provides sufficient funds for the Cooperative's identified operating needs.

79. Using the adjusted test year revenues and expenses approved herein, with a 16.5 percent Operating Margin, would require an increase in gross revenues of $608,914, or 17.19 percent, as summarized below:[80]

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[77] Cooperative Brief at 28.
[78] Staff Brief at 10; Tr. at 318-19.
[79] Ex S-5 Tsan Surr at 9. Community Water requests a revenue requirement of $4,165,106 and Staff is recommending $4,019,415.
[80] The authorized revenue level is $34,776 less than requested by the Cooperative, and $130,915 more than Staff's recommendation.

Fair Value Rate Base	$7,628,678
Adjusted Operating Income	$84,916
Current Rate of Return	1.11%
Required Operating Income	$684,804
Required Rate of Return	8.9767%
Operating Income Deficiency	$599,888
Gross Revenue Conversion Factor	1.01505
Increase in Gross Revenue Requirement	$608,914
Adjusted Test Year Revenues	$3,541,416
Revenue Requirement	$4,150,330
% Increase	17.19%
Operating Margin	16.5%

Rate Design

80. Community Water's current rates and those proposed by the Cooperative and recommended by Staff, based on their respective revenue requirements, are set forth as follows:[81]

MONTHLY USAGE CHARGE:	Present Rates	Proposed Rates Company	Staff
5/8" x ¾" Meter	$13.00	$16.39	$14.70
¾" Meter	13.00	16.39	20.00
1" Meter	24.00	30.25	30.80
1 ½" Meter	40.00	50.42	51.70
2" Meter	67.00	84.45	85.70
3" Meter	105.00	132.35	135.00
4" Meter	400.00	504.20	512.00
6" Meter	650.00	819.33	832.00
8" Meter	1,000.00	1,260.00	1,280.00
Construction Water	According to meter size listed above	According to meter size listed above	According to meter size listed above
Gallons included in minimum	--	--	--

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[81] Decision No. 71478; Ex A-13 RJ Schedules at H-3; Ex S-5 Tsan Surr at PNT-17.

COMMODITY RATES

5/8 x ¾ inch Meter- Residential			
0 to 3,000 gallons	$1.30	$1.45	$1.40
3,002 gallons to 10,000 gallons	2.50	2.79	2.79
Over 10,000 gallons	3.42	3.82	3.82
¾ inch Meter - Residential			
0 to 3,000 gallons	$1.30	$1.45	$1.40
3,002 gallons to 10,000 gallons	2.50	2.79	2.79
Over 10,000 gallons	3.42	3.82	3.82
5/8 x ¾ Inch – Non-residential			
0 gallons to 10,000 gallons	$2.50	$2.79	$2.79
Over 10,000 gallons	3.42	3.82	3.82
¾ inch – Non-residential			
0 gallons to 10,000 gallons	N/A	$2.79	$2.79
Over 10,000 gallons	N/A	3.82	3.82
1 inch Meter – all classes except Construction			
0 gallons to 21,000 gallons	$2.50	$2.79	$2.79
Over 21,000 gallons	3.42	3.82	3.82
1 ½ inch Meter – All Classes			
0 gallons to 35,000 gallons	$2.50	$2.79	$2.79
Over 35,000 gallons	3.42	3.82	3.82
2 inch Meter – all classes except Construction			
0 gallons to 63,000 gallons	$2.50	$2.79	$2.79
Over 63,000 gallons	3.42	3.82	3.82
3 inch Meter – all classes except Construction			
0 gallons to 103,000 gallons	$2.50	$2.79	$2.79
Over 103,000 gallons	3.42	3.82	3.82
4 inch Meter – all classes except Construction			
0 gallons to 424,000 gallons	$2.50	$2.79	$2.79
Over 424,000 gallons	3.42	3.82	3.82
6 inch Meter – all classes except Construction			
0 gallons to 680,000 gallons	$2.50	$2.79	$2.79
Over 680,000 gallons	3.42	3.82	3.82
8 inch Meter – all classes except Construction			
0 gallons to 1,050,000 gallons	$2.50	$2.79	$2.79
Over 1,050,000 gallons	3.42	3.82	3.82

Construction Water (all meter sizes)			
0 gallons to 1,050,000 gallons	$2.50	$2.79	$2.79
Over 1,050,000 gallons	3.42	3.82	3.82

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Service Line Charge	Meter Installation Charge	Total
5/8" x ¾" Meter	$445.00	$155.00	$600.00
¾" Meter	445.00	225.00	670.00
1" Meter	495.00	315.00	810.00
1 ½" Meter	550.00	525.00	1,075.00
2" Meter - Turbine	830.00	1,045.00	1,875.00
2" Meter - Combine	830.00	1,890.00	2,720.00
3" Meter – Turbine	1,045.00	1,670.00	2,715.00
3" Meter - Combine	1,165.00	2,545.00	3,710.00
4" Meter - Turbine	1,490.00	1,737.00	3,227.00
4" Meter - Combine	1,670.00	3,645.00	5,315.00
6" Meter - Turbine	2,210.00	3,766.00	5,976.00
6" Meter - Combine	2,330.00	6,920.00	9,250.00
8" Meter	Cost	Cost	Cost
10" Meter	Cost	Cost	Cost
12" Meter	Cost	Cost	Cost

SERVICE CHARGES:	Present Rates	Proposed Company	Staff
Establishment	$25.00	$25.00	$25.00
Establishment (After Hours)	35.00	35.00	N/A
Reconnection (Delinquent)	25.00	25.00	25.00
Reconstruction (Delinquent) After Hours	35.00	35.00	N/A
Call out charge – After hours/Sat.	35.00	35.00	N/A
Call out charge – Sunday/Holiday	50.00	50.00	N/A
Meter Test (If Correct)	20.00	20.00	$20.00
Deposit	(a)	(a)	(a)
Hydrant Meter Deposit*			
5/8" x ¾" Meter	$155.00	$155.00	$155.00
¾" Meter	225.00	225.00	225.00
1" Meter	315.00	315.00	315.00
1 ½" Meter	525.00	525.00	525.00
2" Meter - Turbine	1,045.00	1,045.00	1,045.00
2" Meter - Combine	1,890.00	1,890.00	1,890.00
3" Meter – Turbine	1,670.00	1,670.00	1,670.00
3" Meter - Combine	2,545.00	2,545.00	2,545.00
4" Meter - Turbine	1,737.00	1,737.00	1,737.00
4" Meter - Combine	3,645.00	3,645.00	3,645.00
6" Meter - Turbine	3,766.00	3,766.00	3,766.00

DECISION NO. _____

6" Meter - Combine	6,920.00	6,920.00	6,920.00
8" Meter	Cost	Cost	Cost
10" Meter	Cost	Cost	Cost
12" Meter	Cost	Cost	Cost
Deposit Interest	6.00%**	6.00%**	6.00%**
Reestablishment (Within 12 Months)	(b)	(b)	(b)
Reestablishment (within 12 Months after hours)	(b)	(b)	(b)
NSF Check	$25.00	$25.00	$25.00
Meter Reread (If Correct)	10.00	10.00	10.00
After Hours Service Charge (per Rule R14-2-403D_	10.00	10.00	10.00
Late Payment Penalty	1.5%/month	1.5%/month	1.5%/month
Deferred Payment (R14-2-409.G)	1.5%/month	1.5%/month	1.5%/month
Moving meter at customer request (R14-2-405(B))	$20.00	$20.00	$20.00
Meter Tampering Charge	Cost	Cost	Cost
Meter Box – Cut Lock Charge	Cost	Cost	Cost
Payment via Visa Charge Care (cost up to 6% service charge on bill paid)	Cost	Cost	Cost
MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:			
6" or Smaller	$10.00	$10.00	$10.00
8"	15.00	15.00	15.00
10"	22.50	22.50	22.50
Larger than 10"	33.75	33.75	33.75

* Shall be refunded entirely upon return of undamaged meter.

** Per Commission Rule A.A.C. R14-2-403(B). Months off system times the monthly bill.

(a) Residential – two times the average bill. Non-residential – two and one-half times the average bill.

(b) Minimum Charge times months off the system.

In addition to the collection regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).

81. The Cooperative does not propose a significant change in its rate structure, maintaining the inverted-tier design and break-over points adopted in the last case. The Cooperative's proposed structure would recover 56.64 percent of its revenue from the monthly customer charge, 18.64 percent from the first tier commodity charges, 21.73 percent from the second tier, and 2.98 percent from the third tier.[82]

[82] Cooperative Brief at 30.

82. Under Staff's proposed rate design, 54.81 percent of revenue would be recovered from the customer charge, while the first, second and third tiers would produce 19.24 percent, 22.82 percent, and 3.13 percent, respectively.[83]

83. The Cooperative argues that its proposed rates are just and reasonable, will not result in rate shock, and give customers significant control over their bills, while allowing the Cooperative a reasonable opportunity to obtain sufficient cash flows to fund operations and plan for the future.

84. Community Water's proposed revenue increase, together with its rate design, would increase the bill of the median residential customer on a 5/8-inch meter, using 3,500 gallons a month, by $3.99, or 22 percent, from $18.15 to $22.14.[84]

85. Staff's recommended revenue requirement and rates would increase the median 5/8-inch meter residential bill with a median usage of 3,500 gallons, from $18.15 to $20.30, an increase of $2.15, or 11.82 percent. Although acknowledging that the parties' rate designs are similar, Staff believes that its recommendation is more balanced and provides the revenue stability the Commission needs while giving customers the ability to influence their bills through conservation.[85]

86. Based on the authorized revenue requirement approved herein, we direct Community to file revised schedules of rates sand charges as follows:

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$15.55
¾" Meter	21.16
1" Meter	32.58
1 ½" Meter	54.69
2" Meter	90.66
3" Meter	142.81
4" Meter	541.63
6" Meter	880.14
8" Meter	1,3254.07
Construction Water	According to meter size listed above

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[83] Staff Brief at 10; Cooperative Brief at 30.
[84] Ex S- 5 Tsan Surr at Sch PNT-18.
[85] Staff Brief at 10.

COMMODITY RATES

5/8 x ¾ inch Meter- Residential	
0 to 3,000 gallons	$1.40
3,002 gallons to 10,000 gallons	2.79
Over 10,000 gallons	3.82
¾ inch Meter - Residential	
0 to 3,000 gallons	$1.40
3,002 gallons to 10,000 gallons	2.79
Over 10,000 gallons	3.82
5/8 x ¾ Inch – Non-residential	
0 gallons to 10,000 gallons	$2.79
Over 10,000 gallons	3.82
¾ inch – Non-residential	
0 gallons to 10,000 gallons	$2.79
Over 10,000 gallons	3.82
1 inch Meter – all classes except Construction	
0 gallons to 21,000 gallons	$2.79
Over 21,000 gallons	3.82
1 ½ inch Meter – All Classes	
0 gallons to 35,000 gallons	$2.79
Over 35,000 gallons	3.82
2 inch Meter – all classes except Construction	
0 gallons to 63,000 gallons	$2.79
Over 63,000 gallons	3.82
3 inch Meter – all classes except Construction	
0 gallons to 103,000 gallons	$2.79
Over 103,000 gallons	3.82
4 inch Meter – all classes except Construction	
0 gallons to 424,000 gallons	$2.79
Over 424,000 gallons	3.82
6 inch Meter – all classes except Construction	
0 gallons to 680,000 gallons	$2.79
Over 680,000 gallons	3.82
8 inch Meter – all classes except Construction	
0 gallons to 1,050,000 gallons	$2.79
Over 1,050,000 gallons	3.82

Construction Water (all meter sizes)	
0 gallons to 1,050,000 gallons	$2.79
Over 1,050,000 gallons	3.82

SERVICE CHARGES:

Establishment	$25.00
Reconnection (Delinquent)	25.00
Meter Test (If Correct)	20.00
Deposit	(a)
Hydrant Meter Deposit*	
5/8" x ¾" Meter	$155.00
¾" Meter	225.00
1" Meter	315.00
1 ½" Meter	525.00
2" Meter - Turbine	1,045.00
2" Meter - Combine	1,890.00
3" Meter – Turbine	1,670.00
3" Meter - Combine	2,545.00
4" Meter - Turbine	1,737.00
4" Meter - Combine	3,645.00
6" Meter - Turbine	3,766.00
6" Meter - Combine	6,920.00
8" Meter	Cost
10" Meter	Cost
12" Meter	Cost
Deposit Interest	6.00%**
Reestablishment (Within 12 Months)	(b)
Reestablishment (within 12 Months after hours)	(b)
NSF Check	$25.00
Meter Reread (If Correct)	10.00
After Hours Service Charge (per Rule R14-2-403D	10.00
Late Payment Penalty	1.5%/month
Deferred Payment (R14-2-409.G)	1.5%/month
Moving meter at customer request (R14-2-405(B))	$20.00
Meter Tampering Charge	Cost
Meter Box – Cut Lock Charge	Cost
Payment via Visa Charge Care (cost up to 6% service charge on bill paid)	Cost

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:

6" or Smaller	$10.00
8"	15.00
10"	22.50
Larger than 10"	33.75

* Shall be refunded entirely upon return of undamaged meter.

** Per Commission Rule A.A.C. R14-2-403(B). Months off system times the monthly bill.

(a) Residential – two times the average bill. Non-residential – two and one-half times the average bill.

(b) Minimum Charge times months off the system.

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Service Line Charge	Meter Installation Charge	Total
5/8" x ¾" Meter	$445.00	$155.00	$600.00
¾" Meter	445.00	225.00	670.00
1" Meter	495.00	315.00	810.00
1 ½" Meter	550.00	525.00	1,075.00
2" Meter - Turbine	830.00	1,045.00	1,875.00
2" Meter - Combine	830.00	1,890.00	2,720.00
3" Meter – Turbine	1,045.00	1,670.00	2,715.00
3" Meter - Combine	1,165.00	2,545.00	3,710.00
4" Meter - Turbine	1,490.00	1,737.00	3,227.00
4" Meter - Combine	1,670.00	3,645.00	5,315.00
6" Meter - Turbine	2,210.00	3,766.00	5,976.00
6" Meter - Combine	2,330.00	6,920.00	9,250.00
8" Meter	Cost	Cost	Cost
10" Meter	Cost	Cost	Cost
12" Meter	Cost	Cost	Cost

In addition to the collection regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).

87. The rates authorized herein would increase the median 5/8 inch meter residential bill by $3.00, or 16.5 percent, from $18.15 to $21.15.

CONCLUSIONS OF LAW

1. Community Water is a public service corporation within the meaning of Article XV of the Arizona constitution and A.R.S. §§40-250, 40-251, and 40-367.

2. The Commission has jurisdiction over Community Water and the subject matter contained in the Company's Application.

3. Community Water's FVRB is $7,628,678.

4. A rate of return on FVRB of 8.9 percent is just and reasonable in this case.

5. The rates and charges established herein are just and reasonable and in the public

interest.

ORDER

IT IS THEREFORE ORDERED that Community Water Company of Green Valley is hereby authorized and directed to file with the Commission, on or before August 31, 2016, revised schedules of rates and charges consistent with the discussion herein, as set forth below:

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$15.55
¾" Meter	21.16
1" Meter	32.58
1 ½" Meter	54.69
2" Meter	90.66
3" Meter	142.81
4" Meter	541.63
6" Meter	880.14
8" Meter	1,3254.07
Construction Water	According to meter size listed above

COMMODITY RATES

5/8 x ¾ inch Meter- Residential	
0 to 3,000 gallons	$1.40
3,002 gallons to 10,000 gallons	2.79
Over 10,000 gallons	3.82
¾ inch Meter - Residential	
0 to 3,000 gallons	$1.40
3,002 gallons to 10,000 gallons	2.79
Over 10,000 gallons	3.82
5/8 x ¾ Inch – Non-residential	
0 gallons to 10,000 gallons	$2.79
Over 10,000 gallons	3.82
¾ inch – Non-residential	
0 gallons to 10,000 gallons	$2.79
Over 10,000 gallons	3.82
1 inch Meter – all classes except Construction	
0 gallons to 21,000 gallons	$2.79
Over 21,000 gallons	3.82

1 ½ inch Meter – All Classes	
0 gallons to 35,000 gallons	$2.79
Over 35,000 gallons	3.82
2 inch Meter – all classes except Construction	
0 gallons to 63,000 gallons	$2.79
Over 63,000 gallons	3.82
3 inch Meter – all classes except Construction	
0 gallons to 103,000 gallons	$2.79
Over 103,000 gallons	3.82
4 inch Meter – all classes except Construction	
0 gallons to 424,000 gallons	$2.79
Over 424,000 gallons	3.82
6 inch Meter – all classes except Construction	
0 gallons to 680,000 gallons	$2.79
Over 680,000 gallons	3.82
8 inch Meter – all classes except Construction	
0 gallons to 1,050,000 gallons	$2.79
Over 1,050,000 gallons	3.82
Construction Water (all meter sizes)	
0 gallons to 1,050,000 gallons	$2.79
Over 1,050,000 gallons	3.82

SERVICE CHARGES:

Establishment	$25.00
Reconnection (Delinquent)	25.00
Meter Test (If Correct)	20.00
Deposit	(a)
Hydrant Meter Deposit*	
5/8" x ¾" Meter	$155.00
¾" Meter	225.00
1" Meter	315.00
1 ½" Meter	525.00
2" Meter - Turbine	1,045.00
2" Meter - Combine	1,890.00
3" Meter – Turbine	1,670.00
3" Meter - Combine	2,545.00
4" Meter - Turbine	1,737.00
4" Meter - Combine	3,645.00
6" Meter - Turbine	3,766.00
6" Meter - Combine	6,920.00
8" Meter	Cost

10" Meter	Cost
12" Meter	Cost
Deposit Interest	6.00%**
Reestablishment (Within 12 Months)	(b)
Reestablishment (within 12 Months after hours)	(b)
NSF Check	$25.00
Meter Reread (If Correct)	10.00
After Hours Service Charge (per Rule R14-2-403D	10.00
Late Payment Penalty	1.5%/month
Deferred Payment (R14-2-409.G)	1.5%/month
Moving meter at customer request (R14-2-405(B))	$20.00
Meter Tampering Charge	Cost
Meter Box – Cut Lock Charge	Cost
Payment via Visa Charge Care (cost up to 6% service charge on bill paid)	Cost

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:

6" or Smaller	$10.00
8"	15.00
10"	22.50
Larger than 10"	33.75

* Shall be refunded entirely upon return of undamaged meter.

** Per Commission Rule A.A.C. R14-2-403(B). Months off system times the monthly bill.

(a) Residential – two times the average bill. Non-residential – two and one-half times the average bill.

(b) Minimum Charge times months off the system.

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Service Line Charge	Meter Installation Charge	Total
5/8" x ¾" Meter	$445.00	$155.00	$600.00
¾" Meter	445.00	225.00	670.00
1" Meter	495.00	315.00	810.00
1 ½" Meter	550.00	525.00	1,075.00
2" Meter - Turbine	830.00	1,045.00	1,875.00
2" Meter - Combine	830.00	1,890.00	2,720.00
3" Meter – Turbine	1,045.00	1,670.00	2,715.00
3" Meter - Combine	1,165.00	2,545.00	3,710.00
4" Meter - Turbine	1,490.00	1,737.00	3,227.00
4" Meter - Combine	1,670.00	3,645.00	5,315.00
6" Meter - Turbine	2,210.00	3,766.00	5,976.00
6" Meter - Combine	2,330.00	6,920.00	9,250.00

8" Meter	Cost	Cost	Cost
10" Meter	Cost	Cost	Cost
12" Meter	Cost	Cost	Cost

In addition to the collection regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after September 1, 2016.

IT IS FURTHER ORDERED that Community Water Company of Green Valley shall notify its customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, or by separate mailing, in a form acceptable to Staff.

IT IS FURTHER ORDERED that Community Water Company of Green Valley shall use the depreciation rates set forth in Staff's Engineering Report.

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IT IS FURTHER ORDERED that Community Water of Green Valley shall continue to depreciate plant that remains in service and shall review its depreciation rates in the interim before its next rate and propose any changes to those rates that appear warranted.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN LITTLE COMMISSIONER STUMP

COMMISSIONER FORESE COMMISSIONER TOBIN COMMISSIONER BURNS

IN WITNESS WHEREOF, I, JODI A. JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____day of _____ 2016.

JODI A. JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
JR:rt

SERVICE LIST FOR: COMMMUNITY WATER COMPANY OF GREEN VALLEY

DOCKET NO.: W-02304A-15-0263

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